Ontario's Fair Hydro Plan – Assessment of Financial Accountability Office's Analysis Regarding Interest and Debt

On May 24, 2017, the Financial Accountability Office of Ontario (FAO) released "An Assessment of the Fiscal Impact of the Province's Fair Hydro Plan". Beyond its assessment of the impact on the province's fiscal plan, the FAO's 2017 May Report was based on data provided by the Ministry of Energy.

Since the FAO's May 2017 Report, the Ministry has updated its modelling to include electricity cost estimates that were developed for the 2017 Long-Term Energy Plan and updated assumptions from Ontario Power Generation.

The table below compares the FAO estimates with two new scenarios based on the Ministry of Energy updated modelling. The new scenarios reflect capital structure assumptions from the FAO report with two different assumptions around the interest rate spread (i.e., 50 basis points and 100 basis points). Note: The FAO's 2017 May Report assumed a spread of 90 basis points.

$billion	***Interest***	***Peak debt***	***Difference in Financing Compared to All Provincial Borrowing***
1. FAO's May 2017 Report	21.0	26.2	4.0
2. ENERGY Updated estimates[1] with FAO methodology and provincial borrowing rates + 50 basis points[2]	17.9	20.2	1.4
3. ENERGY Updated estimates[1] with FAO methodology and provincial borrowing rates + 100 basis points [3]	19.1	20.3	2.4

Note: A number of variables, including interest rates, electricity demand and electricity costs, will vary over the thirty year life of Ontario Fair Hydro Plan (OFHP) and cost estimates will continue to be revised to reflect these changing conditions.

[1] Energy Updated modelling uses the FAO assumed base provincial borrowing rate of 4.5%.
[2] Assumes 44% of debt is financed through the OFA at 4.5% and 56% is financed through capital markets at 5.0%. The weighted average interest rate is 4.78%.
[3] Assumes 44% of debt is financed through the OFA at 4.5% and 56% is financed through capital markets at 5.5%. The weighted average interest rate is 5.06%.

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